

Message Text

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C O N F I D E N T I A L USNATO 5180

E.O. 11652: GDS

TAGS: MPOL, PFOR, ECON, NATO

SUBJECT: MINISTERIAL GUIDANCE: RESOURCES

REF: A. USNATO 5100

B. USNATO 4888(NOTAL

C. USNATO 4943(NOTAL

D. USNATO 5080(NOTAL

E. STATE 205722(NOTAL

IS JUST CIRCULATED ECONOMIC DIRECTORATE DRAFT CONTRIBUTION TO RESOURCES SECTION OF MINISTERIAL GUIDANCE (QUOTED BELOW). DRC WILL DISCUSS DRAFT DURING SEPTEMBER 26 MEETING (REF A). DRAFT REFLECTS FINDINGS OF WORKING PAPER ON ECONOMIC APPRECIATION (AC/127-WP/407). EXCEPT FOR RESERVATIONS STATED REFS B, C AND D, MISSION BELIEVES DRAFT GENERALLY SUPPORTS US RESOURCE INITIATIVES ON MINISTERIAL GUIDANCE. DURING SEPTEMBER 26 DRC MEETING, MISSION PROPOSES TO: (A) DISPUTE VIEW THAT US IN POSITION TO INCREASE DEFENSE EFFORT AT A HIGHER RATE THAN EUROPEAN ALLIES, CONFIDENTIAL

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(B) CALL FOR REMOVAL OF FIRST SENTENCE IN PARA 36 (BIS) (WHICH WE BELIEVE CANNOT BE SUBSTANTIATED),

(C) RECOMMEND SEPARATE PARAGRAPH SUPPORTING PRESENT MANPOWER

LEVELS (NO REDUCTIONS EXCEPT IN CONTEXT OF MBFR), (D) RECOMMEND
ADDITIONAL EMPHASIS ON REQUIREMENT FOR RENEWED EFFORTS TOWARD

BETTER USE OF EXISTING MANPOWER AND FISCAL DEFENSE RESOURCES
(RATIONALIZATION, SPECIALIZATION, ETC.), AND (E) SUPPORT
DRAFT PRESCRIPTIONS FOR NATIONS TO MAINTAIN/INCREASE REAL
BUDGETARY EXPENDITURES AND MAINTAIN AT LEAST CURRENT SHARES OF
GNP FOR DEFENSE. IN THIS REGARD, MISSION WILL EMPHASIZE NEED FOR
ANNUAL 3 PERCENT REAL INCREASE IN NATIONAL DEFENSE BUDGETS,
PARTICULARLY FOR ALLIES WHOSE DEFENSE SPENDING/GNP RATIO IS BELOW
4 PERCENT. BEGIN TEXT:

CONTRIBUTION BY THE ECONOMICS DIRECTORATE
TO THE RESOURCES SECTION OF THE MINISTERIAL GUIDANCE

RESOURCES

34. THE YEAR 1973 WAS A TURNING POINT FOR THE ECONOMIC
DEVELOPMENT OF MEMBER COUNTRIES. UP TO THAT YEAR IT SEEMED
THAT THE GROWTH PERFORMANCE OF THE 1960S MIGHT BE REPEATED IN
THE 1970S AND THAT THE STRENGTH OF THE ECONOMIES AND THE
POTENTIAL MILITARY CAPABILITIES OF BOTH NATO AND WARSAW PACT
COUNTRIES COULD THUS BE INCREASED SUBSTANTIALLY OVER THE
PERIOD UNDER REVIEW. THE STRONG INFLATIONARY DEVELOPMENT FROM
1972-73 AND THE FORESEEABLE BALANCE OF PAYMENTS PROBLEMS OF
NATO COUNTRIES CREATED BY THE STEEPLY RISING ENERGY PRICES
DURING THE LAST QUARTER OF 1973 HAVE COMPLETELY ALTERED THE
GROWTH OUTLOOK FOR THE 1970S. THIS FACTOR AND INCREASINGLY
DIFFICULT POLITICAL AND SOCIAL PROBLEMS HAVE LED TO MORE FRAGILE
ECONOMIC INTER-RELATIONSHIPS THAT COULD EASILY BE REDUCED TO
DISORDER BY AN UNFORESEEN TRAIN OF EVENTS. IN SUCH CIRCUMSTANCES
THE POSSIBILITY OF RECESSION TAKING A GRIP AND ASSUMING WORLD
WIDE PROPORTIONS, CANNOT BE RULED OUT.

35. EVEN SUPPOSING THAT NATO GOVERNMENTS CAN COPE WITH
THE MANY DIFFICULT ECONOMIC PROBLEMS MENTIONED ABOVE, IN THE
PRESENT FAR FROM CLEAR SITUATION THE OUTLOOK POINTS DECISIVELY
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TO SLUGGISH GROWTH. UNDER THE BEST CONDITIONS IT WILL TAKE TIME
FOR CORRECTIVE MEASURES TO TAKE EFFECT AND THEREFORE THE MOST
THAT CAN BE HOPED FOR OVER THE PERIOD TO 1978 IS AVERAGE GROWTH
RATES OF THE ORDER OF 2 PERCENT TO 3 PERCENT FOR MOST NATO EUROPEAN
COUNTRIES. ON THE OTHER HAND IN NORTH AMERICA WHERE THE POSITION
IS BASICALLY STRONGER, THE GROWTH RATE COULD BE OF THE ORDER OF
4 PERCENT. UP TO 1982 THE GROWTH RATE IS LIKELY TO CHANGE MUCH IN
NORTH AMERICA WHILE AN IMPROVEMENT COULD BE EXPECTED IN EUROPE.

36. THE EVENTS THAT HAVE HIT NATO COUNTRIES ARE LIKELY TO
HAVE AN OVERALL POSITIVE EFFECT ON THE WARSAW PACT COUNTRIES,
AND ESPECIALLY ON THE USSR, SO FAR AS THEY CAN TAKE ADVANTEGE OF
HIGHER RAW MATERIAL PRICES ON EXPERT MARKETS. ECONOMIC GROWTH

COULD AVERAGE SOME 5 PERCENT PER YEAR OVER THE PERIOD UP TO 1982 AND INCREASE CONSIDERABLY THE MILITARY POTENTIAL OF THE ECONOMIES OF THE WARSAW PACT COUNTRIES. THE CONCENTRATION ON ARMAMENTS PRODUCTION IN THE USSR AND THE VERY CONSIDERABLE R & D EFFORT MADE OVER THE LAST DECADE PLACE THE USSR IN A RELATIVELY VERY FAVOURABLE POSITION TO MAKE OPTIMAL USE OF RESOURCES FOR MILITARY PURPOSES OVER THE COMING YEARS.

36(BIS). WHILE THEREFORE THE DEFENCE CAPABILITY OF WARSAW PACT COUNTRIES IS LIKELY TO INCREASE RAPIDLY OVER THE PERIOD UNDER REVIEW THE ABILITY OF MOST NATO COUNTRIES TO SUPPORT THEIR DEFENCE EFFORT COULD AT BEST INCREASE ONLY SLOWLY. IN BOTH THE EASTERN AND WESTERN GROUP OF COUNTRIES THE IMPACT OF ECONOMIC DEVELOPMENTS WILL VARY CONSIDERABLY. FOR NATO MEMBER COUNTRIES IN PARTICULAR, CIRCUMSTANCES ARE LIKELY TO ARISE THAT WOULD SERIOUSLY WEAKEN SOME ECONOMIES, AT LEAST IN THE MEDIUM TERM. FOR THE HARDEST HIT COUNTRIES IMPLEMENTATION OF THE DEFENCE EFFORT AS INDICATED IN THE 1975-1980 FORCE GOALS MIGHT RAISE UNACCEPTABLE ECONOMIC AND POLITICAL PROBLEMS. IN SUCH CIRCUMSTANCES, TO AVOID A CRITICAL REDUCTION OF THE OVERALL DEFENCE CAPABILITY OF THE ALLIANCE IT MIGHT WELL BE NECESSARY FOR THE COUNTRIES THAT ARE WELL PLACED ECONOMICALLY TO DO RELATIVELY MORE. THIS UNDERLINES THE NECESSITY OF OBTAINING THE MAXIMUM EFFECTIVE VALUE FROM THE RESOURCES THAT COUNTRIES ALLOCATE TO DEFENCE THROUGH RATIONALISATION AND CO-OPERATION IN ARMS PROCUREMENT ON A NATO-WIDE BASIS.

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36(TER). RESOURCE ALLOCATION TO DEFENCE IS LIKELY TO BE STRONGLY AFFECTED BY THREE KEY ECONOMIC FACTORS-INFLATION, SEVERE BUDGETARY CONSTRAINTS AND LOW ECONOMIC GROWTH.

- WITH HIGH INFLATION RATES THE OUTLOOK IS FOR A SHARP ESCALATION OF PERSONNEL COSTS. THE SYSTEM ALREADY ADOPTED BY SOME MEMBER COUNTRIES OF SUPPLEMENTARY APPROPRIATIONS FOR MEETING WAGE AND PRICE INCREASES HAS PROVED EFFECTIVE IN ALLEVIATING PROBLEMS CREATED BY INFLATION. IF THIS SYSTEM IS ADOPTED BY ALL MEMBER COUNTRIES THE BUDGETARY PROBLEMS RAISED BY INFLATION COULD BE SOLVED.

- INFLATION CREATES SPECIAL PROBLEMS FOR MAJOR EQUIPMENT PROCUREMENT. THE OUTLOOK FOR SHARP COST INCREASES IN THIS SECTOR WILL MAKE IT ESSENTIAL FOR ECONOMIES TO BE MADE, PARTICULARLY THROUGH STANDARDIZATION AND CO-OPERATION IN PRODUCTION ON A SCALE NOT YET IN PROSPECT IN NATO.

- SEVERE BUDGETARY CONSTRAINTS ARE LIKELY DURING A PERIOD WHEN RESOURCES FOR DEFENCE HAVE REACHED LEVELS INADEQUATE FOR NATIONAL SECURITY IN MANY COUNTRIES. THERE IS A NEED FOR A CLOSE SCRUTINY OF NATIONAL BUDGETARY PRIORITIES AND

THE AIM SHOULD BE TO MAINTAIN AND EVEN INCREASE SOMEWHAT THE
REAL BUDGETARY EXPENDITURES DEVOTED TO DEFENCE.

- FOR THE ALLIANCE AS A WHOLE THE ECONOMIC GROWTH
MIGHT CONTINUE DURING THE PERIOD UNDER REVIEW, BUT AT A CONSIDER-
ABLY LOWER RATE THAN DURING THE LAST DECADE. IN SUCH
CIRCUMSTANCES A FURTHER DECLINE OF THE DEFENCE SHARE OF GNP
WOULD IMPLY A SERIOUS WEAKENING OF THE DEFENCE CAPABILITY
OF THE ALLIANCE. COUNTRIES SHOULD THEREFORE DEVOTE TO DEFENCE
RESOURCES SUFFICIENT TO MAINTAIN AT LEAST THEIR CURRENT SHARE
OF GNP.

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